



# CITY OF HAYWARD AGENDA REPORT

AGENDA DATE 10/27/98

AGENDA ITEM \_\_\_\_\_  
WORKSESSION ITEM WS # 2

**TO:** Mayor and City Council

**From:** Finance and Internal Services Director

**Subject:** Two-year Budget

## Background/Discussion

Several years ago the City of Hayward implemented a two-year budget. At that time, the goal was to streamline the budget process and lessen the impact that the annual budget preparation had on the City's ongoing workload. For various reasons, including a more volatile economy, the City did not continue with the two-year budget, even though it has been discussed over the years. More recently, an objective was included in the 1998/99 Budget to evaluate the feasibility of implementing a two-year budget. Staff believes that there are significant advantages to a two-year budget and has developed an approach for the upcoming budget period.

## Key Advantages

**Efficiency.** one of the keys advantages to a two-year budget is the efficient production of the budget. More specifically, there is a substantial gain in terms of "freeing up" Council and staff time in the second year. Given the City's routine workload this is a major benefit to the operating departments. This means that staff resources that are used to develop the annual budget can, in the second year, be applied elsewhere. If the budget process were impaired by this approach, then there would be no advantage. However, each year time is spent by staff "redoing" budget submissions for ongoing base budget items. Staff believes that this duplication of effort is not necessary and that staffs time can be better spent in other activities.

**Goal Setting.** Another key advantage to a two-year budget is the introduction of the two-year planning horizon. That is, both Council and staff are in a position to identify, to the extent possible, important budget issues over a two-year period. The result is that, generally, additional time is made available for understanding and addressing such issues. Consequently, the two-year budget process directly supports the City Council as it sets priorities and identifies *goals* for the City.

## How Will it Work

Rather than reinvent the wheel, staff researched several other cities that are currently using a two-year budget. This was an efficient approach and much was learned from the approach taken by other cities. However, in developing an approach for Hayward, staff tried not to just “copy” what other cities are doing. Instead, staff tried to take the best of what others are doing while keeping an open mind to new approaches.

What other cities are doing. Staff spoke with several cities that have a **two-year** budget and collected budgets from six cities. They are the cities of San Mateo, Livermore, Lakewood, Pleasanton, Walnut Creek and Union City. After reviewing the various budgets certain commonalities became apparent and these are listed below.

- ❖ The two-year budget is really a two-year “plan”. That is the City Council officially adopts one year at a time. This allows the City to have an annual budget which meets financial reporting needs, Charter requirements and grant requirements.
- ❖ There is some level of review at the mid-point. Any required adjustments are incorporated into the adoption of the budget for the second year.
- ❖ A significant amount of work is done in terms of identifying goals and developing specific objectives for the two-year budget up front. Changes, modifications, new programs etc, are kept to a minimum at the mid-point.
- ❖ Through worksessions, retreats or other meetings the City Council establishes budget goals, guidelines or directives that are the basis for the budget.

A Plan for Hayward. If Hayward were to adopt a two-year budget the following is a list of key steps that would facilitate adoption of a two-year budget.

1. The Budget and Finance Committee should recommend to the full City Council that the City adopt a two-year budget for **1999/2001**.
2. If adopted, Council would direct staff to prepare a **two-year** budget for **1999/2001**. This should be done as soon as

possible to allow staff time to address implementation issues.

3. As in years past, the Council would need to meet to provide direction regarding funding priorities and areas of emphasis.
4. Based on Council's direction, staff would develop a two-year budget, using the **base budget approach**. The budget would be submitted to Council in the same manner as prior years. This process consists of a series of worksessions in May with adoption scheduled for June.

### **How Will the First and Second Year Differ**

First Year. In terms of the material that is presented to Council for review, the first year will be similar to the regular annual budget. A key difference will be the inclusion of objectives for the second year and an additional column for the proposed budget for the second year. Also, the review process may be different in certain cases. For example, programs that need to span two fiscal years can be considered more easily and effectively by Council. Finally, Council will need to review revenue estimates and assumptions for a two-year period as opposed to just one-year. Because the revenue estimates are the basis for the expenditure budget, assumptions for the second year will need to be carefully considered. While the "first year" will see changes, it is the second year that is the most different from the current approach.

Second Year. If staff and the Council do their "budget homework" well in the first year, then the second year should provide the efficiency dividend alluded to earlier. Staff proposes to bring the second year budget to Council in the following manner.

- ❖ Council would adopt a two-year budget in June of 1999 for 1999/2000 and a proposed budget for 2000/2001.
- ❖ In February of 2000 staff would come to Council at the Mid-Year budget review to discuss any significant departures from budget for 1999/2000, **if necessary**.
- ❖ In May and/or June of 2000, staff will discuss with Council any changes to priorities or goals that need to be made in the second year. Any budget adjustments that need to be made to the second year will be presented to Council. Examples would be significant changes in revenue or expenditure estimates or known additional costs.

- 1. The budget information noted above, for the first year, would be presented to Council in a manner similar to the current annual budget. The second year “budget document” would be at the summary level.
- 2. Council would formally adopt the second year of the **two-year** budget in June of 2000 for **2000/2001**.

In summary, the focus of the second year will be on what has changed from the prior year and what new items Council wishes to have considered.

### **Important Considerations**

The following comments represent information learned as staff reviewed the **two-year** budgets of other cities and spoke or met with the staff of these cities. The comments are presented in no particular order.

- ❖ Both Council and staff need to be aware of and be prepared to accept an increased level “*budget discipline*” which is inherent in the development of a two-year budget.
- ❖ While there is a “net savings” in preparation time over the two years, the first year requires an increase in preparation time.
- 1. The more clearly goals and priorities are established, the more successful the two-year budget will be.
- ❖ Budget information such as objectives, accomplishments, budget overviews should be streamlined. Simply “doubling up” to create the two-year budget may make it unwieldy.
- ❖ To facilitate the review process, Council may wish to focus on how the budget accomplishes the goals and priorities established by Council. For example, detailed budget information, while available, would be visited only as Council has questions.
- ❖ Two-year budgets tend to work best when the economy is relatively stable and the City is not facing significant budget issues, i.e. a revenue loss, layoffs, etc.

The list above is certainly not complete. However, in discussing a two-year budget with other cities, the comments noted above were thought to be the most important.

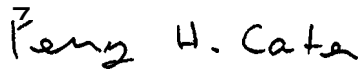
### **Sample Budget Information**

Attached for the Council's review is a sample page showing how the goals and ongoing activities of a department would be developed and presented to Council. In addition, a sample expenditure page is included for Council's review.

### **Budget and Finance Committee Review**

The Council's Budget and Finance Committee reviewed staffs report on the two-year budget project at the Committee's October 20, 1998 meeting. The Committee expressed **concurrence** in staffs proposal to implement a two-year budget and **directed** Staff to present it to the full City Council, at a worksession, for review.

Prepared by:



Perry H. Carter  
Perry H. Carter, Director of Finance

Approved by:



Jesús Armas  
Jesús Armas, City Manager


## CITY MANAGER DEPARTMENT

### Office of the City Manager

The office of City Manager carries out the general administrative responsibilities of managing the City of Hayward, implementing policies adopted by the City Council and providing liaison between the Mayor/City Council and City departments. **Please note, Objectives listed below are for illustration only.**

#### Objectives (Example)

- 9 Implement policies and programs adopted by the City Council. Submit timely and complete **recommendations** to the City Council on all items raised for Council consideration.
- 9 Prepare and **recomm**ed a two-year budget which reflects the goals established by the City Council and adheres to the fiscal policies adopted by the City Council.
- 9 Maintain an effective Public Information effort that keeps the residents of Hayward and other interested parties informed on local government activities.
- 9 Provide leadership to the City organization. Maintain positive relations with all labor organizations representing City employees.
- 9 Assist City departments in assessing operational effectiveness and **efficiency**
- 9 Represent the City to community and external organizations. Foster positive relations with a variety of Hayward based community based organizations.
- 9 Actively track Federal, State and Local issues that could have an impact on the City and develop and recommend actions to the City Council as appropriate.



Rather than listing objectives for tasks that are of an on going nature and therefore part of the base budget, this information could be listed in a summary, narrative fashion

### **Objectives 1998-2000 (Example)**

- Provide project management for the construction of the retail/garage mixed use development to be constructed on B Street adjacent to City Hall – this will include the disposition of the retail portion of the development. **June 2000.**
- Conclude the acquisition of the BART property next to City Hall that is required to construct the housing contemplated as part of the Civic Center Project. **June 2000.**
- Continue to monitor AB 1890 legislation pertaining to electric utility deregulation and look at opportunities for the City to provide or obtain electricity at better rates. **June 2001.**

FUND: GENERAL FUND  
DEPARTMENT: CITY MANAGER DEPARTMENT  
PROGRAM MANAGER: JESUS ARMAS

FUND NUMBER: 100-1201

### ACTIVITY SUMMARY BY EXPENDITURE CATEGORY

#### OFFICE OF THE CITY MANAGER

	1997/1998 ACTUAL	1998/1999 ADJUSTED	1999/2000 RECOMMENDED	2000/2001 PROPOSED
EMPLOYEE SERVICES	482,776	503,393	520,111	525,673
MAINTENANCE & UTILITIES	1,675	2,420	2,420	2,876
SUPPLIES & SERVICES	72,699	60,824	61,800	64,326
CAPITAL EXPENSE	12,505	0	0	635
	-----	-----	-----	-----
SUBTOTAL	569,655	566,637	584,331	593,510
NET INTERDEPARTMENTAL	2,054	0	0	4,000
	-----	-----	-----	-----
TOTAL	571,709	566,637	584,331	597,510
	=====	=====	=====	=====